

DISCUSSION PAPER

Policy Analysis Units in Developing Countries



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Policy Analysis Units in Developing Countries

Critical to any strategy to accelerate economic progress and social development is the adoption and effective implementation of appropriate policies. But knowing what the optimal policies are is not sufficient. Policymakers also need to know (1) the *speed* with which various reforms can be undertaken and (2) the *extent* to which the shocks of adjustment to reforms can be buffered without eroding the positive impact of the policies. Governments thus need information not only about macroeconomic performance—information that is now commonly available and often on a timely basis—but also about the impact of current policies on the economy and how changes in those policies might favor more rapid growth and improved social development.

Numerous emerging market economies, often encouraged by foreign donors, have therefore created a variety of institutes or think tanks to conduct research and analysis that contributes to the design of economic policies. Some, such as the Korean Development Institute (KDI), were established in the early 1970s; others, like the Thailand Development Institute (TDRI), were established in the 1980s; and still others were established in response to emerging economic issues in the 1990s. Some surviving institutes are held up as exemplars of the role that institutes can play in policy formulation. Others, such as National Development Council (CONADE) project in Argentina or the Center for Planning and Economic Research (KEPE) in Greece, have ceased to exist and are counted among the failures. Still others have evolved into full-fledged academic institutions. Despite this mixed record, the demand for new institutes is not slackening and governments with a variety of funding sources continue to sponsor new institutes. The recently created Social Monitoring and Early Response Unit (Lembaga Penelitian SMERU) in Indonesia, for example, was established in 1998 to analyze the impact of the economic crisis on Indonesia's poor, and to monitor the effectiveness of relief programs. Now a thriving policy institute, it focuses on poverty elimination and welfare.

These varied outcomes raise some obvious questions: What motivates governments to establish policy research institutes and for what purpose? What are the characteristics of the

most successful institutes? And finally, how does one judge their success or failure? In the following paragraphs we briefly touch on these issues.

Why Do Governments Create Policy Research Institutes?

Although the motivation for establishing a research institute varies from country to country, two constraints are common. First, the formal structure of the bureaucracy can impede the sound, objective analysis and research necessary to ensure informed policy choices. Second, traditional bureaucracies cannot conduct field studies and data gathering exercises as quickly as policy research institutes. Should these constraints become less binding, the research institute may find itself without a rationale for existence and, unable to attract qualified staff, close down. Or it may seek new avenues through which to deliver services to different clients.

A number of well-known constraints inhibit the civil service from promoting innovative ideas. In most developing countries, the civil service is poorly paid and unlikely to attract the best-educated and best-trained individuals.¹ It trades security of tenure for lower wages with fairly automatic promotions, especially at the lower and middle levels, where promotions usually reflect seniority rather than performance. Unsurprisingly, policy issues are treated as routine matters, not opportunities for innovation, and the best and brightest are reluctant to join the civil service, depriving reform efforts of the talent necessary for their success. Even when the civil service is reasonably well remunerated and well led, the daily demands of bureaucracy prevent the staff from conducting the research and analysis needed to inform policy decisions. Despite perceived bottlenecks to new policy ventures, the civil service does have the expertise to evaluate the recommendations of policy research institutes and to modify them for effective implementation. A successful institute thus maintains strong ties to the government so that proposed new ventures can receive a fair hearing and, if adopted, be effectively implemented.

Governments are often moved to create a “think-tank” to perform tasks that the civil service is unable to perform. In many ways the factors that motivate the establishment of policy research institutes are like those that lead governments to create export-processing zones. It would be far better, for example, to reform the trade regime by adopting widely recognized and accepted measures while eliminating barriers to the growth of export industries. Too often, however, political pressures and vested interests prevent broad reforms, so governments resort to creating free trade zones to simulate an “open economy.” Likewise, research institutes perform tasks that, in a different environment, the government would perform. But, given the weaknesses of the bureaucracy and the limited resources for reforming the civil service, governments find it expedient to create policy research institutes.

¹ A significant exception to this is Singapore where, under the leadership of former Prime Minister Lee Kwan Yew, civil service salaries were set close to private sector salaries.

A second reason for creating a research institute is that they often have the skills and the flexibility to conduct surveys and analysis that the civil service cannot conduct in the time available, and that academic professionals would not consider rigorous enough to merit their attention. This is not to suggest that the institutes eschew theory, a common misperception. Rather, a good policy researcher respects economic theory but uses it to observe and interpret the world, employing useful, robust, and relatively simple techniques to present alternative policy proposals and outcomes. And in the end an even greater skill is called for: policy analysts must be able to effectively communicate findings to all levels of the bureaucracy, from those who approve policy to those who ensure its implementation.² Such skills are not readily found in academic institutions, which emphasize understanding the theoretical necessities of theory rather than their practical import.

What Are the Characteristics of Successful Policy Research Institutes?

Research that informs policy decisions must be relevant, timely, and professionally sound. There are of course different ways such a product can be achieved. First, one can use consultants, though this has disadvantages. Consultants are costly and tend to focus on policy options that may not fully reflect the social and political constraints that define the policy space in a given situation. Too often, they try to recycle policies successfully introduced elsewhere. While the basic policy may be theoretically robust, its precise impact in a specific country is not so easily known and experience elsewhere is not readily transportable. Recommending a policy that can be successfully implemented in a different social structure requires more knowledge and more fieldwork than most consultants can provide.

Second, one can use academic institutions to conduct background research, but this too has pitfalls. Academic researchers, who work to a time scale determined in part by their academic responsibilities, are often not able to respond quickly or continuously to the needs of policymakers. While some such collaborations have been successful most have been neither particularly useful nor timely.

The most successful models have relied on the creation of specific research institutes that can draw on academic literature, distill the essential lessons of the theoretical work, and devise effective means of using those insights in a specific social-political setting. What are the characteristics of successful research institutes? Although reviewing the history of a number of institutes provides no ready answer, some common elements emerge.

² Harberger wrote that “if economists are to carry out their responsibility to society, they must ... [be able to communicate] with the public at large” in “The Economist and the Real World.” Remarks delivered on the occasion of being awarded the degree of Doctor Honoris Causa, Pontifical Catholic University of Chile, April 7, 1988, p. 5.

STRONG TIES WITH POLICYMAKERS

The policy research institute must have strong ties to the civil service and the government. Without such ties, the institute will quickly become irrelevant no matter how well designed its studies. Without demand, its studies will not be used. Creating ties to the civil service may appear to be a simple matter—appoint a former senior government official to head the research unit. But this is far from foolproof. If the official has little remaining influence in the government, the fact that he or she held an earlier post may do little good or even be detrimental. Nevertheless, it would be foolish to minimize the importance of ensuring channels through which the results of policy analysis can be fed to decision makers and where requests for refinements and analysis can be fed back to the institute. Without such a strong channel, the institute will quickly lose focus and relevance.

QUALIFIED STAFF

To ensure its impact, the institute must attract qualified analysts committed to policy-oriented research. In addition to academic strength and training, recruiters must seek those with an interest in such mundane activities as collecting primary data, interviewing those affected by the current policy regime, and gaining access to those who oppose change. Attracting such individuals requires that the institute's director and senior staff be well-respected and able to make a credible commitment that government decision-makers will take the research into consideration.

Such conditions were met in the long-term association forged between the Harvard Institute of International Development (HIID) and the Government of Indonesia. Extending 30 years, that relationship has proved fruitful for a variety of activities, including trade reform, fiscal and monetary reform, staff development and training, and the establishment of a policy research institute. In that project the resident staff, as well as outside consultants, were able to present their analysis directly to senior policymakers in meetings that allowed the bureaucrats to question assumptions and data and better understand the likely impact of proposed policy reforms. These meetings ensured that the analysis received an audience at a high level and often yielded insights that researchers had failed to consider—and “most important these meetings also provided indications of the political realities that in the final analysis always constrain policy actions.”³ In other projects, the inability of research institutes to disseminate their output to senior policymakers eventually undermined staff morale and led to the growing irrelevance of the institute.⁴

³ Joseph J. Stern. 2000. Indonesia-Harvard University: Lessons from a Long-term Technical Assistance Project. *Bulletin of Indonesian Economic Studies*, Vol. 36, No. 3 (December), p.120.

⁴ For a short but highly informative study of such efforts, successful and others decidedly less so, see Edward S. Mason's *The Harvard Institute for International Development and its Antecedents*. (1986, Lanham, MD: University Press of America).

Of course, an institute can seek other channels to disseminate its research and it can attend to other tasks. In numerous instances, policy research is disseminated through forums, workshops, symposia, and publications, all of which help ensure that the research is not neglected. Such exposure helps ensure that the quality of the work is methodologically and empirically well grounded. For example Richard Mallon, project direct of the Trade and Industrial Project (TIP) in Bangladesh, notes that the “most important impact of the more than a hundred studies ... published ... was in the perceptible change in the way trade and industry policy was discussed in Bangladesh. Debate in numerous seminars and conferences ... organized became better informed [and} trade associations began to collect statistics and ... prepare their own studies.”⁵

ADEQUATE FINANCING

Financing a policy research institute is neither a cheap nor a short-term endeavor. Not only do such exercises call for substantial financial support but, with few exceptions, policy research institutes are unlikely to become financially self-sufficient. Thus, the senior managers of the institute need to maintain strong ties to the government and bear a good part of the burden of fundraising, a time-consuming task at best. While having a single donor may make fundraising seem easier, it has a number of disadvantages that make the case for diversifying funding sources. Financial diversification (1) defuses the political aspects of the work and (2) increases the likelihood that future funding will be forthcoming even if one or more donors lose interest in providing further support.

Defusing the political aspect associated with the funding source is often critical. A policy think-tank financed entirely by a single international financial institution, such as the World Bank or the Asian Development Bank, is open to the charge that this is simply another way for the special interests of those institutions to be heard at the highest levels of local decision making. A similar charge is likely to be levied against any funding from one national donor agency, especially if the subject on which the think-tank focuses is controversial, such as trade policy or privatization. In such instances opponents will find it easy to argue that the proposed policies suit the ideology of the donors but take insufficient account of the specific needs of the country. While such accusations may be false, they carry considerable political and popular weight that can doom the effectiveness, if not the life, of the research activity.

⁵ Richard D. Mallon. 2000. *The New Missionaries: Memoirs of a Foreign Adviser in Less-Developed Countries*. Cambridge, MA: Harvard Institute for International Development, p. 97.

Success and Failure: Outcomes and Reasons

Creating a successful policy research institute is a difficult task with no simple or standard prescriptions for guaranteeing success. Heeding some obvious lessons, however, can increase the chances of success:

- First, a successful institute must be well led. The director must be a respected person of some academic and political standing who can gain an audience for the institute's work and who can attract academically well-qualified individuals.
- Second, the senior staff must be able to deal with donors, ensuring staff that the institute has a long-term future and reassuring the public that the analysis is objective and not merely a reflection of donor interests. Given the difficulty of these politically delicate tasks, long-term success is rare.
- Third, the institute must address policy-relevant issues. While the institute need not focus solely on the pressing issues of the day, it cannot be seen as focusing on theoretical issues that do not directly affect the economic and social conditions of a wide swath of the population. If the institute fails to address relevant issues it will quickly devolve in to an academic research institute, and while that may be an acceptable outcome it is clearly not the outcome initially foreseen.

Policy research institutes fail for many other reasons. For example, perhaps the political climate conducive to such an effort changes and the institute either closes or loses its political and financial support. Or the policy issue that was its founding concern (e.g., tax reform) may have been dealt with and may no longer be a priority for policymakers. This does not mean that once initial reforms are achieved the institute can serve no other purpose. There is, after all, a continuing need for analysis of most economic policy issues. But once immediate problems have been addressed, financial and political support for further analytic work usually wanes. If an institute survives it often does so by reinventing itself.⁶

The relatively low survival rate of policy research institutes, however, is not an appropriate measure of their success. Successful institutes, even those that have brief lives, are fertile training grounds, and staff from such institutes often find employment at senior levels of government. In sum, creating human capital may be a more important part of institution building than the strengthening of any particular organization.

⁶ Many institutes successfully transformed themselves as the demand for their services waned. An outstanding example is the National Bureau of Economic Research (NBER) in the United States. Founded in 1921 its original focus was standards for measuring national income and its components. That effort eventually informed the statistical work of the U.S. Department of Labor and other agencies, such that over time the NBER transformed itself into an economic organization focused on broader issues. It now brings together a wide range of interests and research activities.